news From

COMMITTEE ON POST OFFICE
AND CIVIL SERVICE
U.S. HOUSE OF REPRESENTATIVES

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Chairman William D. Ford of the House Post Office and Civil Service Committee today warned that the President's FY 1984 budget will do further permanent damage to the Federal workforce without any regard for the consequences.

In testimony before the House Budget Committee, the Michigan Democrat said repeated assaults by the Reagan Administration already have resulted in fundamental changes in the character of the Federal workforce.

"We have done these things without any careful consideration of what kind of civil service we want to have in place for the future," Ford said. "Until that question is answered and we understand the consequences, we must not do further damage."

Ford urged the Budget Committee to be cautious in assuming that savings proposed by the President will be achieved in areas of his committee's jurisdiction.

He asked the Budget Committee to assume that:

o COLA deferments for Federal retirees will be no greater than those Congress decides for social security recipients.

o The pay increase for Federal workers will be a minimum of 4 percent, reflecting last year's commitment by Congress and the Administration.

o There be no change in health and retirement benefits, since the complexity and sensitivity of the issues require intensive hearings and analyses by our committee and thus will not impact the FY 1984 budget.

A copy of Ford's prepared testimony is attached.

REMARKS OF CHAIRMAN WILLIAM D. FORD

POST OFFICE AND CIVIL SERVICE COMMITTEE

BEFORE THE

HOUSE BUDGET COMMITTEE

FEBRUARY 10, 1983

Mr. Chairman, I appear before you today to discuss the continuing assault on the Federal workforce contained in the FY 1984 budget the Administration sent to Congress last month.

All of us in Congress are keenly aware of our nation's tragic economic dilemma and the urgent need to reduce the towering budget deficits created by this Administration's costly supply-side economics failure.

But where Federal workers are concerned, enough is enough.

For two years this Administration has used Federal workers and retirees as convenient scapegoats. In the most blatant demagoguery I have ever witnessed in my political career, this Administration has gone to extraordinary lengths to portray Federal workers as indolent paper shufflers who are overpaid and underworked. It has done this, I must conclude, to enlist public support for draconian budget cuts against Federal workers and those who have retired from the Federal service -- to reenforce the popular misconception about Federal workers.

At this point in time, there can be no doubt that the Reagan Administration has sought deliberately to make Federal employment less attractive.

And I cannot help but wonder what price we will pay down the road in terms of efficiency and quality. If we continue this mindless diminution of pay and benefits, how will we attract the best and brightest to work at NIH, NASA, the Food and Drug Administration, the Department of Agriculture, the FAA and all those other departments and agencies where Federal workers perform the vital services that keep this nation running?

If we continue on the present course, we will guarantee the kind of second-rate workforce the White House portrays to the public.

The disdain this Administration harbors for public workers is neatly summed up in a statement by J. Peter Grace, the industrialist President Reagan hand-picked to head the President's Private Sector Survey on Cost Control in Federal Government.

Listen to Mr. Grace's description of those who protect our Presidents, keep our airways safe, build our navy's ships and do all those other jobs that must be done:

"How could you expect anybody who has gone into the bureaucracy and made a life's work of it to hold to the right principles? Right off the bat, those people are looking for a cushy deal. I don't want to beat on everybody who works for the government, but no matter how pure and fine their motives when they start, after 10 or 15 years of service they're just there to get their pensions."

The fact is that we <u>have</u> been beating on everybody who works for the Federal government. Let's take a look at what the Administration wants to do now to Federal workers.

<u>Federal retirement and pay freeze</u>

The proposed COLA freeze is a prime example of the unfairness inherent in the President's budget. For social security recipients and beneficiaries of Federal entitlement programs, the President proposes a six-month delay in COLA. But for Federal civilian and military retirees, he proposes to eliminate the FY 1984 COLA adjustment altogether. In effect, he proposes a 13-month delay for Federal retirees, more than twice as long as the delay proposed for all others. How fair is that?

Perhaps the President believes the myth that the vast majority of Federal employees retire at age 55 and receive large annuities. The facts are that in 1982 the average age of a retiring civil servant was 61, and, for the last two years the average annuity for a retiring employee has grown smaller -- in 1980 the average monthly annuity was $1,067, in 1981 it fell to $1,019, and in 1982 it fell dramatically to $935.[1]

Even the average retiree who has been receiving COLAs for a number of years is not getting rich. Of the 1.7 million annuitants on the rolls on September 30, 1980, more than one-third received annuities less than $500 per month, and more than 70 percent received annuities of less than $1,000 per month. Only 9,560 (six one hundredths of one percent) received annuities of more than $3,000 per month.[2]

There simply is no basis to treat Federal retirees more harshly than beneficiaries of other Federal retirement programs.

The proposed Federal civilian and military pay freeze is another example of presidential unfairness. The President, with the acquiescence of the Congress, has totally abandoned the principle that Federal salaries should be comparable to those paid in the private sector. Federal salaries in recent years have fallen farther and farther behind the levels required for

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[1] Data supplied to the Committee on Post Office and Civil Service by the General Accounting Office.

[2] "Civil Service Retirement System", Committee Print No. 97-3, Committee on Post Office and Civil Service, pp. 64, 65 (1981).

comparability. As of October, they were 14.47 percent behind the private sector and now, the President proposes an outright freeze.

Proponents of the freeze argue Federal workers should be happy just to have a secure job, and that pay concessions are common in the private sector today. But there is no pay freeze in the private sector. The Congressional Budget Office estimates that for the period March 1982 to March 1983, the average hourly earnings index will increase by 5.5 percent. And BLS figures show private, non-farm wages rose 6.3 percent in 1982.

Last year's four-percent raise for Federal workers was generally eaten up by the medicare tax and increased health insurance premiums. Many, many employees actually experienced reductions in take-home pay. At a minimum this year we should provide the four percent increase assumed in last year's budget resolution, especially in light of what is happening in the private sector.

Civil service retirement revisions

The civil service retirement revisions proposed in the President's budget for fiscal year 1984 reflect a series of gulps that would make Moby Dick envious. The President, no longer content with denying Federal employees a fair rate of pay, is now attacking and destroying the one remaining recruitment and retention incentive for Federal employment. The President's budget proposals represent the most drastic reductions in retirement benefits I have seen in my 18-years in the House. Briefly, the proposed revisions include:

-- Increasing employee contributions from 7 percent to 9 percent in 1984 and from 9 percent to 11 percent in 1985;

-- Reducing annuities by 5 percent for each year the employee is under age 65 at the time of retirement;

-- Calculating annuities on the basis of highest average salary over five years rather than three years; and

-- Modifying the formula for computing annuities.

The civil service retirement system has been under attack since 1977 when Congress repealed the one-percent bonus that was added to each cost-of-living adjustment. Since then we have changed from twice-a-year to once-a-year cost-of-living adjustments, restricted disability retirement benefits, increased interest rates on deposits for prior service, delayed the commencing dates of annuities, provided one-half cost-of-living adjustments for retirees under age 62, plus several other changes. According to preliminary data compiled by the General Accounting Office, these retirement system changes have resulted in a total reduction in benefits of $6.7 billion since 1977. Add to that the annual pay caps -- amounting to a loss in pay of over $11 billion since 1979 -- last year's imposition of the medicare tax on Federal employees, a 55 percent increase in health insurance premiums over the past two years coupled with a decrease in benefits, and it is no small wonder that employee morale is at an all-time low. Further complicating the retirement issue is the proposal to extend social security coverage to certain Federal employees -- at least new hires. That is a more imminent problem that our committee will have to address.

<u>Federal employees health benefits</u>

Over the past two years, under the direction of OPM Director Donald Devine, we have witnessed a steady erosion of Federal employee health benefits. Premiums have increased an average of 55 percent and the overall level of benefits has substantially decreased. In 1981, the customary open season was postponed, resulting in unprecedented chaos and several lawsuits. In 1981 the Committee on Post Office and Civil Service asked William M. Mercer, Incorporated, to conduct a comprehensive evaluation of the Federal

Employees Health Benefits Program and to compare that program with several private sector and state government health plans. The Mercer report, which was published in July 1982, concluded that the value of benefits under the Federal Employees Health Benefits Program falls below the average value of benefits received by employees in the private sector and state government plans.

Contrary to the basic thrust of the Mercer recommendations, the President's budget proposes a major restructuring of the health benefits program. While few specifics of the proposal are furnished, it appears that in the future each employee would receive a fixed dollar amount towards the purchase of health insurance. This amount would be based on the average government contribution for employee health insurance in 1983, indexed in future years to reflect price increases. Our preliminary information shows that under this proposal, the average government contribution for employee health benefits in fiscal year 1984 will be reduced by $172 and that the maximum government contribution will be reduced by over $500.

In another area of the committee's jurisdiction, the U.S. Postal Service, this Administration is asking those who can least afford it to pay for its economic miscalculations.

<u>The "revenue forgone" appropriation</u>

This appropriation subsidizes the postal rates paid by certain types of "preferred" mailers -- the blind and handicapped, libraries, schools, charities, churches, veterans organizations, small rural newspapers, and others.

The Administration is proposing a fiscal year 1984 appropriation of only <u>$400 million</u>. The results? Well, the Postal Service tells me that the rate for mailing classroom publications will go up <u>103%</u> as of October 1. The rate for in-county rural newspapers: 97%. The rate for nonprofit fundraising letters: 77%.

Public service appropriation

The Administration is recommending a zero public service appropriation for FY 1984, continuing the practice of the past two years. The public service appropriation historically has been characterized as the Federal government's compensatory payment to the Postal Service for providing unprofitable and inefficient public service such as maintaining rural post offices, Saturday mail delivery, convenient urban collection boxes, and door-to-door delivery.

If not for the Reconciliation Act of 1981, the fiscal year 1984 public service authorization would have been $460 million. It is now zero. I am not going to argue here today that the authorization should be restored. I continue to believe in the principle of funding a portion of postal operations through appropriations, but I recognize that this will not happen in the foreseeable future. I do wish to point out to the committee, though, that the Postal Service will have lost about $1.6 billion in public service appropriations over three years, and that the effect must be felt in terms of either increased rates or decreased service — or both. The Postal Service (after reporting a $700 million "profit" for fiscal year 1982) is projecting a $285 million loss for fiscal year 1983 and a $1.5 billion loss for fiscal year 1984. Those losses have to be made up somehow. Rates are going to go up. And if rate increases are going to be kept reasonable, quality and quantity of services are going to have to be looked at. I know many Members are increasingly upset by the proliferation of "clusterboxes" as a substitute for door or curb delivery. I also must tell you that I have on my desk an exhaustive study by GAO conclusively demonstrating that the Postal Service could cut its operating costs by $125 million to $150 million a year by closing 7,000 small, inefficient post offices. Having to even contemplate such a study is but one of the unpleasant results of wiping out the public service appropriation and having a totally self-supporting, "pay-as-you-go" postal system.

Administration proposals to increase Postal Service personnel costs

The Postal Service is an extraordinarily labor-intensive organization. Some 86% of Postal Service costs are personnel costs. I say that, if we are going to have this kind of "pay-as-you-go" postal system, and if we are now going to start loading all sorts of additional personnel costs on the system (as the Administration proposes), why don't we accelerate the evolutionary pace even more? If Postal Service managers are to do their job as their private sector management counterparts do theirs, they should have some measure of control over these costs. The Postal Service is studying the feasibility of pulling out of the civil service health benefits program and forming its own plan. My committee will be awaiting the results of this study with great interest. I understand that similar studies may also be made of separate life insurance and retirement plans.

In my opinion, an essential part of the Postal Service's evolutionary process must necessarily be the continued evolution of full collective bargaining rights. There is but one way to guarantee postal management the control it needs over presently uncontrollable personnel costs -- full collective bargaining. Similarly, there is but one way to give rank-and-file postal workers the same voice in determining conditions of employment that their private sector counterparts have -- full collective bargaining.

Mr. Chairman, I wonder how far this Administration intends to go to cover up its economic blunders?

If we indeed need to find huge additional savings in the domestic program side of the budget, we must look elsewhere. We have taken all we dare from the hides of Federal workers.

Certainly what we have done already is bound to change the character of the Federal workforce. Yet we have done all these things without any careful consideration of what kind of civil service we want to have in place for the future. Until that question is answered and we understand the consequences, we must not do further damage.

The President's fiscal year 1984 budget makes savings assumptions based on specific proposals.

It would be unrealistic for the Budget Committee to assume that the President's recommendations in areas of jurisdiction under the Post Office and Civil Service Committee will be achieved.

Out of fairness and a concern for efficient and effective government, I urge this committee to assume that:

- COLA deferments for Federal retirees will be no greater than those Congress decides for social security recipients.
- The pay increase for Federal workers will be a minimum of 4 percent, reflecting last year's commitment by Congress and the Administration.
- There be no change in health and retirement benefits, since the complexity and sensitivity of the issue require intensive hearings and analyses by our committee and thus will not impact the FY 1984 budget.

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SELECTED CHANGES IN PAY AND BENEFITS OF FEDERAL EMPLOYEES RESULTING IN GOVERNMENT SAVINGS - 1975 TO 1983

Significant changes	1975	1976	1977	1978	1979	1980	1981	1982	1983	Total
	(millions)									
General Schedule employees' savings resulting from annual Federal pay caps	0	804.1	0	0	808.4	985.6	1288.7	3186.8	4827.8	11,901.4
Extension of Social Security Hosp. Insurance Taxes to Federal Employees									600	600
Changes to the Retirement System										
--P.L. 94-440; changes to cost of adjustment and 1-percent add on 1/			228	378	612	894	982	Savings unmeasured	Savings unmeasured	3,094
--P.L. 96-499, 12-5-80; changes to minimum benefits for disability retirement							49	49	49	147
Repealed the lookback annuity guarantee provision							270	270	270	810
--P.L. 97-35, 8-13-81 2/ Omnibus Budget Reconciliation Act of 1981								907	907	1814
--P.L. 97-253, 9-8-82 Omnibus Budget Reconciliation Act of 1982										
Limited COLA 3/									760	760
1-Year Income Test 4/									18	18
Early Retirement Restriction 5/									22	22
Increased interest rates 6/									11	11
Total		804.1	228	378	1420.4	1879.6	2589.7	4412.8	7464.8	19,177.4

1/P.L. 94-440 eliminated the 1-percent add on from succeeding Federal civilian and military annuity adjustments and provided for new process of semiannual adjustments based on the actual percentage rise in the cost of living.

2/This law changed the annuity adjustments for Federal retirees from semiannual to annual adjustments.

3/Cost-of-living adjustment increases were limited to one-half the increase in the CPI for retirees under 62 years of age.

4/Earning capacity test period for disabled retirees was changed from 2 years to 1 year in order to remove economically recovered persons from the roles more quickly.

5/The new legislation no longer permits employees to decline reasonable offers of other jobs and retire under the system's involuntary early retirement provisions.

6/Interest rates charged on outstanding contributions to the retirement fund were increased to match the current interest rate earned o